

Message Text

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TO AMEMBASSY COLOMBO IMMEDIATE

C O N F I D E N T I A L STATE 089598

E.O. 11652: GDS

TAGS: PPDC, EAID, CE

SUBJECT: JAYEWARDENE LETTER TO THE PRESIDENT

SRI LANKA EMBASSY DELIVERED ON APRIL 6 FOLLOWING LETTER FROM
PRESIDENT JAYEWARDENE TO PRESIDENT CARTER. YOUR COMMENTS
WOULD BE APPRECIATED BY APRIL 10 FOR INCLUSION IN DRAFT
REPLY TO JAYEWARDENE. (LETTER DATED MARCH 29, 1978).

BEGIN TEXT: DEAR MR. PRESIDENT:

I AM WRITING TO YOU IN CONNECTION WITH THE FORTHCOMING
MEETING OF THE SRI LANKA AID GROUP SCHEDULED TO BE HELD IN
MAY THIS YEAR.

THE GOVERNMENT OF THE UNITED NATIONAL PARTY WHICH WAS
VOTED TO OFFICE IN JULY 1977 WITH AN OVERWHELMING AND UN-
PRECEDENTED MAJORITY INHERITED A RUNDOWN ECONOMY. THIS
WAS THE CUMULATIVE RESULT OF ADVERSE TERMS OF TRADE OVER
THE PAST SEVERAL YEARS, UNFAVORABLE WEATHER CONDITIONS
AFFECTING THE PRODUCTION OF RICE AND TEA IN PARTICULAR,
COUPLED WITH THE ILL-CONSIDERED ECONOMIC POLICIES OF THE
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PREVIOUS ADMINISTRATION. IT IS WIDELY RECOGNIZED THAT THIS
COUNTRY HAS, OVER THE YEARS, SUCCEEDED IN CONTAINING POPU-
LATION GROWTH, ENSURING A MORE EQUITABLE DISTRIBUTION OF

INCOME, AND MAINTAINING A QUALITY OF LIFE NOT MATCHED BY
MANY OTHER COUNTRIES WITH FAR LARGER PER CAPITA INCOMES.
IT IS NEVERTHELESS ALSO TRUE THAT IN MORE RECENT YEARS THE
COUNTRY'S SOCIAL ACHIEVEMENTS, AND ITS CAPACITY TO MEET THE
BASIC NEEDS OF ITS PEOPLE BUILT UP OVER A PERIOD OF THREE
DECADES, HAS BEEN ERODED BY A CONSPICUOUS LACK OF RESOURCES

TO MAINTAIN THEM. THIS HAS BEEN CAUSED BY A FAILURE TO REALIZE THE FULL GROWTH POTENTIAL OF THE ECONOMY WHICH AVERAGED UNDER 3 PERCENT IN THE LAST 7 YEARS, RESULTING FROM, AMONG OTHERS, A DIMINUTION IN THE RATE OF SAVINGS, BOTH PUBLIC AND PRIVATE, A LACK OF WELL CONCEIVED AND VIABLE PROJECTS AND A GENERAL MISALLOCATION OF RESOURCES. THE EMASCULATION OF THE PRIVATE SECTOR AND THE UNCERTAINTIES CAUSED BY AN EXCESSIVELY DIRIGISTE ECONOMY, CHARACTERIZED BY A PROLIFERATION BOTH OF QUANTITATIVE CONTROLS AND RELATIVE PRICE DISTORTIONS HAVE ALSO CONTRIBUTED TO THIS STATE OF AFFAIRS. SUCCESSIVE ADMINISTRATIONS HAVE SHIRKED THE TOUGH DECISIONS REQUIRED AND HAVE RESPONDED WITH POPULIST PALLIATIVES TO OVERCOME CURRENT DIFFICULTIES IN A MANNER WHICH HAS ONLY SERVED TO COMPOUND OUR UNEMPLOYMENT PROBLEM.

WE LOOK UPON THE MANDATE GIVEN TO OUR PARTY BY THE PEOPLE AS A CLEAR ENDORSEMENT OF THE POLICIES OF THE UNITED NATIONAL PARTY, MORE PARTICULARLY ITS ECONOMIC POLICIES AND BY IMPLICATION A REJECTION OF THE POLICIES PURSUED BY THE PREVIOUS ADMINISTRATION. IT IS, THEREFORE, A MANDATE NOT TO SHIRK THE TOUGH ECONOMIC DECISIONS SO OBVIOUSLY REQUIRED AT A VERY EARLY STAGE IN MY ADMINISTRATION SO
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THAT THESE MAY BEAR FRUIT WITHIN THE CONSTITUTIONAL LIFETIME OF MY GOVERNMENT WHICH IS COMMITTED TO THE PRESERVATION OF DEMOCRATIC PROCESSES. IT IS HOWEVER ALSO TO BE EXPECTED THAT THE INSTITUTION OF AN EXECUTIVE PRESIDENCY TOGETHER WITH THE CONTEMPLATED ADOPTION OF PROPORTIONAL REPRESENTATION WILL BE CONDUCIVE TO THAT DEGREE OF POLITICAL STABILITY REQUIRED FOR DEVELOPMENT WITHIN A DEMOCRATIC SYSTEM.

MY GOVERNMENT HAS IN OTHER WORDS ESTABLISHED THE FRAMEWORK BOTH OF POPULAR AND INSTITUTIONAL SUPPORT REQUIRED TO CARRY THROUGH ECONOMIC REFORMS AIMED AT PROMOTING ECONOMIC GROWTH AND AT FOSTERING A CLIMATE SUITABLE FOR INVESTMENT BOTH IN THE PUBLIC AND PRIVATE SECTORS, WHILE CONSERVING THOSE SOCIAL VALUES THAT HAS IN THE PAST RESULTED IN A UNIQUE QUALITY OF LIFE AND REGARD FOR BASIC NEEDS. THE POLICY OF THE UNITED NATIONAL PARTY IS, IN BRIEF, TO CREATE AND MAINTAIN A JUST SOCIETY WITHIN THE FRAMEWORK OF A LIBERAL ECONOMY.

DERIVING FROM THESE CONSIDERATIONS, SEVERAL MEASURES HAVE BEEN TAKEN IN THE BUDGET PROPOSALS ANNOUNCED IN NOVEMBER LAST YEAR IN AN ATTEMPT TO CORRECT THE DEFICIENCIES OF THE PAST AND TO SET A MORE RATIONAL COURSE FOR ECONOMIC DEVELOPMENT. THE UNIFICATION AND THE FLOATING OF THE RATE OF EXCHANGE FOR THE SRI LANKA RUPEE AT A REALISTIC LEVEL, THE INCREASE OF THE GUARANTEED PRICE TO PRODUCERS

OF RICE, AND THE REMOVAL TO A LARGE EXTENT OF IMPORT AND EXCHANGE CONTROLS, WERE ALL MEASURES AIMED AT CORRECTING THE MORE OBVIOUS PRICE DISTORTIONS IN THE ECONOMY. ACTION HAS ALSO BEEN INITIATED TO INCREASE PRODUCTIVITY AND IMPROVE EFFICIENCY OF MANAGEMENT PARTICULARLY IN THE PUBLIC SECTOR ENTERPRISES. IN PARTICULAR PUBLIC SECTOR ENTERPRISES MANAGEMENT HAS BEEN TRANSFERRED TO PRIVATE HANDS WHILE RETAINING THE PRINCIPLE OF PUBLIC OWNERSHIP. THE FOOD SUBSIDY WHICH OUR PEOPLE HAVE BEEN ACCUSTOMED TO EN-
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JOY OVER THE PAST 30 YEARS OR MORE HAS BEEN REMOVED FROM ONE HALF OF THE POPULATION, WITH INCOMES OF OVER RS. 300 PER MONTH PER FAMILY UNIT. THIS ATTEMPT TO SHIFT RESOURCES FROM CONSUMPTION TO DEVELOPMENT HAS THUS TAKEN INTO ACCOUNT THE NECESSITY TO PROTECT THE NUTRITIONAL NEEDS OF, IN PARTICULAR, THE BOTTOM 50 PERCENT OF INCOME EARNERS. SEVERAL OTHER MEASURES WILL NEVERTHELESS BE REQUIRED ON A PHASED BASIS TO REALLOCATE RESOURCES IN THIS MANNER, AS THE ECONOMY RESPONDS TO THE NEW MEASURES AND EMPLOYMENT INCREASES. OUR BEING A PARLIAMENTARY DEMOCRACY, THERE ARE OBVIOUS CONSTRAINTS AFFECTING THE PACE OF CHANGE BUT NOT THEIR DIRECTION. THE FACT THAT THESE DECISIONS WERE TAKEN AT THE VERY COMMENCEMENT OF MY ADMINISTRATION IS THE SUREST GUARANTEE OF VISIBLE RESULTS WITHIN THE NEXT SEVERAL YEARS.

THE INTERNATIONAL MONETARY FUND HAS ENDORSED THE ECONOMIC POLICY OF MY GOVERNMENT BY EXTENDING ESSENTIALLY BRIDGING BALANCE OF PAYMENTS SUPPORT TO SUSTAIN THE ECONOMY IN THIS TRANSITIONAL PERIOD OF STRUCTURAL CHANGE. THIS SUPPORT IS NECESSARILY OF A SHORT-TERM DURATION, EVEN TAKING INTO ACCOUNT THE RESOURCES WE EXPECT TO OBTAIN ON COMPLETION OF THE FORMAL NEGOTIATIONS UNDER THE EXTENDED FUND FACILITY AND THE SUPPLEMENTARY CREDIT FACILITY. IT WILL NOT BE EXPECTED TO SUSTAIN A LONG-TERM DEVELOPMENT PROGRAMME ENTAILING CONSIDERABLE OUTLAYS UPON INITIAL REHABILITATION OF RUN DOWN SECTORS AND DEFINED AREAS OF ECONOMICALLY FEASIBLE PRODUCTIVE INVESTMENT. FOR THIS, WE HAVE NECESSARILY TO TURN TO BILATERAL ASSISTANCE AND TO INTERNATIONAL INSTITUTIONS SUCH AS THE WORLD BANK.

THE TWIN PROBLEMS THE GOVERNMENT HAS INHERITED ARE, IN SUMMARY, UNEMPLOYMENT AND A STAGNANT ECONOMY. ABOUT 25
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PERCENT OF THE WORK-FORCE OF THE COUNTRY ARE UNEMPLOYED THE VAST MAJORITY OF WHOM ARE IN THE AGE GROUP OF 14 TO 30 YEARS, WITH A SECONDARY SCHOOL EDUCATION. WHILE WE REALIZE THAT THESE PROBLEMS COULD NOT BE RESOLVED IMMEDI-

ATELY, AND THAT MORE DURABLE SOLUTIONS TAKE TIME TO EVOLVE, I CANNOT EMPHASIZE TOO STRONGLY THE IMPERATIVE NEED TO MAKE A QUICK IMPACT ON EMPLOYMENT CREATION IN ORDER TO MEET THE EXPECTATIONS OF OUR PEOPLE, TO PREVENT SOCIAL DISCONTENT, AND TO MAINTAIN THE MOMENTUM OF THE ADJUSTMENT PROCESS UPON WHICH WE HAVE LAUNCHED WITHOUT WHICH THE REQUIRED DOMESTIC SAVINGS FOR AN ACCEPTABLE MEDIUM TERM INVESTMENT PROGRAMME CANNOT IN POLITICAL TERMS BE GENERATED.

IT IS LARGELY FOR THIS REASONS THAT MY GOVERNMENT HAS GIVEN PRIORITY TO THE ACCELERATION OF THE MAHAWELI GANGA DEVELOPMENT SCHEME, A LARGE MULTIPURPOSE IRRIGATION CUM POWER PROJECT OVER THE NEXT 5 YEARS. THE PRIORITY AREAS THAT HAVE BEEN IDENTIFIED FOR COMMENCEMENT INVOLVE AN EXPENDITURE DURING THIS PERIOD OF AROUND RS. 11,000 MILLION IN CURRENT TERMS. MAGNITUDES OF THIS ORDER APPEAR TO BE SENSIBLE IN MACRO ECONOMIC TERMS IN THE SENSE OF LEAVING ROOM FOR OTHER NEEDED PRODUCTIVE INVESTMENT DURING THIS PERIOD AND PERMITTING THEIR IMMEDIATE COMMENCEMENT. AMONG THESE AREAS IS THE NEED TO REHABILITATE THE AGRICULTURAL SECTOR, MORE PARTICULARLY THE TREE CROP SECTOR WHICH IS OUR PRINCIPAL SOURCE OF FOREIGN EXCHANGE EARNINGS, THE REHABILITATION OF OUR TRANSPORT (ROAD AND RAIL) AND HEALTH INFRA-STRUCTURES, THE DEVELOPMENT OF INDUSTRY, FISHERIES, HOUSING AND MINOR IRRIGATION. BUT I CANNOT EMPHASIZE TOO STRONGLY THAT UNLESS A COMMENCEMENT IS MADE ON MAHAWELI CONSTRUCTION WITH THE VICTORIA MULTIPURPOSE COMPLEX BEING INITIATED IN MARCH 1979 AND PARALLEL EMPLOYMENT ACTIVITY BEING LAUNCHED ON IRRIGATION CHANNEL CONSTRUCTION IN ANTICIPATION OF THE DAM BEING BUILT, THE

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POLITICAL WILL TO MOVE AWAY FROM SUBSIDIES TOWARDS DEVELOPMENT CANNOT BE SUSTAINED IN A DEMOCRACY SUCH AS OURS.

THE MAHAWELI PROGRAMME IS EXPECTED IN THE NEXT 5 YEARS TO BRING UNDER IRRIGATED CULTIVATION ABOUT 300,000 ACRES OF NEW LAND IN THE MAHAWELI BASIN, BESIDES GENERATING 250 MEGAWATTS OF ADDITIONAL ELECTRIC POWER, APART FROM THE CONSIDERATION THAT ITS EARLY COMMENCEMENT IS AN ESSENTIAL PREREQUISITE FOR A MORE RAPID ADJUSTMENT PROCESS. IT WILL ALSO GIVE EMPLOYMENT TO 400,000 PERSONS DURING THE CONSTRUCTION AND DEVELOPMENT PHASE OF LAND FOR FARM FAMILIES BESIDES SEVERAL AGRO-BASED INDUSTRIES AND ANCILLARY SERVICES. THE GOVERNMENT IS AWARE OF THE NEED TO PLAN THE EXECUTION OF THE PROJECT AND CONSIDER CAREFULLY ITS TECHNICAL FEASIBILITY AND ECONOMIC VIABILITY IN THE USUAL MICRO ECONOMIC SENSE. NEVERTHELESS WE CANNOT AFFORD THE LUXURY OF LEISURELY PROGRESS ON A PROJECT THAT HAS ALREADY CAPTURED THE IMAGINATION OF THE PEOPLE AND HAS BECOME AN ESSENTIAL ELEMENT OF NATION BUILDING. IT IS OUR INTENTION,

THEREFORE, TO UNDERTAKE AS A MATTER OF URGENT PRIORITY, THE EXECUTION OF A SUBSTANTIAL PORTION OF THE PROJECT THAT HAS BEEN DETERMINED AS A BASIS FOR TECHNICAL AND ECONOMIC EVALUATION AND BEING CAPABLE OF COMPLETION IN 5 TO 6 YEARS. IN THIS EFFORT WE NEED THE UNDERSTANDING AND SUPPORT OF THE DONOR GOVERNMENTS AND INSTITUTIONS.

TWO OTHER MAJOR ACTIVITIES WHICH MY GOVERNMENT SHALL UNDERTAKE SHORTLY ARE THE ESTABLISHMENT OF AN EXPORT PROCESSING ZONE AND THE GREATER COLOMBO URBAN HOUSING DEVELOPMENT PROJECT, INVOLVING THE RESETTLING AND REHOUSING OF URBAN SLUM DWELLERS.

LEGISLATION HAS ALREADY BEEN ENACTED FOR THE ESTABLISH-
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MENT OF THE GREATER COLOMBO ECONOMIC COMMISSION WITH AUTONOMY IN MAKING QUICK DECISIONS ON IMPORTANT ASPECTS. AN AREA OF 200 SQUARE MILES BETWEEN THE AIRPORT AND HARBOUR IN COLOMBO HAS BEEN IDENTIFIED FOR THE ESTABLISHMENT OF AN INDUSTRIAL INVESTMENT ZONE WHERE TAX CONCESSIONS AND INDUCEMENTS GENERALLY NOT LESS FAVORABLE THAN THOSE ACCORDED TO INDUSTRIES SET UP IN FREE TRADE ZONES IN OTHER COUNTRIES WOULD BE ALLOWED. WE LOOK UPON THE ESTABLISHMENT OF THIS ZONE AS YET ANOTHER AREA WHICH WOULD PROVIDE EMPLOYMENT TO OUR YOUTH AND AT WHICH WOULD PROVIDE EMPLOYMENT TO OUR YOUTH AND AT THE SAME TIME PROMOTE INCREASED ECONOMIC ACTIVITY, THOUGH WE RECOGNIZE THAT THIS BENEFIT WILL ACCRUE BOTH TO THE EXTENT THAT MY GOVERNMENT INSPIRES INTERNATIONAL CONFIDENCE AND THE DETERMINED AT THE PACE AT WHICH INTERNATIONAL ECONOMIC RECOVERY CONTINUES TO TAKE PLACE. WE NEED BOTH FINANCIAL SUPPORT FROM DONOR GOVERNMENTS FOR BUILDING THE INFRA-STRUCTURE OF THE ZONE AND WOULD ALSO WELCOME ANY ENCOURAGEMENT FRIENDLY COUNTRIES CAN GIVE TO WOULD BE ENTREPRENEURS TO INVEST IN OUR INDUSTRIAL INVESTMENT ZONE.

THE OTHER MAJOR AREA OF EMPHASIS OF GOVERNMENT POLICY - THE GREATER COLOMBO URBAN HOUSING DEVELOPMENT PROJECT - IS BASICALLY DESIGNED TO HELP THE URBAN POOR PRESENTLY OCCUPYING SLUMS TO MOVE INTO HOUSING UNITS WITH BASIC FACILITIES AND TO GENERATE EMPLOYMENT IN CONSTRUCTION ACTIVITY. THIS ENTAILS THE RECLAMATION OF LAND AROUND COLOMBO AND THE CONSTRUCTION OF HOUSING UNITS. DONOR SUPPORT IN A PARTICULARLY IMAGINATIVE VENTURE SUCH AS THIS BEARING IN MIND THAT SRI LANKA IS COMMITTED TO MAINTAINING THE TRADITIONAL OVER-WHELMINGLY RURAL BALANCE OF

ITS POPULATION WOULD BE WELCOME. RURAL HOUSING WILL ALSO BE UNDERTAKEN BOTH BY THE STATE AND ON AN AIDED SELF-HELP BASIS.

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INSTITUTIONAL ARRANGEMENTS HAVE BEEN MADE FOR IDENTIFYING AND DEVELOPING VIABLE PROJECTS SUITABLE FOR FOREIGN FINANCING AND A COMMITTEE OF DEVELOPMENT SECRETARIES UNDER THE CHAIRMANSHIP OF THE SECRETARY TO THE CABINET AND SERVICED BY THE MINISTRY OF FINANCE AND PLANNING MEETS WEEKLY TO REVIEW THESE AND OTHER POLICY ISSUES. WHILE SEVERAL PROJECTS HAVE BEEN IDENTIFIED, IT IS EXPECTED THAT THE DEVELOPMENT OF DETAILED PROJECT PROPOSALS WILL TAKE A LITTLE MORE TIME. THE PORTFOLIO OF PROJECTS IS EXPECTED TO BE READY BY SEPTEMBER THIS YEAR AND IT IS OUR EXPECTATION THAT AN ANNEX OUTLINING PROPOSALS, WITH SUGGESTIONS FOR FEASIBILITY STUDY, WILL BE MADE AVAILABLE TO DONOR GOVERNMENTS AS SOON AS POSSIBLE. MEANWHILE, THE COUNTRY NEEDS CONSIDERABLE FOREIGN ASSISTANCE TO SUSTAIN ITS LIBERALIZED IMPORT POLICY, TO STRENGTHEN THE INFRASTRUCTURE AND TO MAINTAIN AND INCREASE PRODUCTION IN THE AGRICULTURAL AND INDUSTRIAL SECTORS. WHILE PROJECT AID REMAINS A MEDIUM-TERM OBJECTIVE, OUR PRESENT AND IMMEDIATE NEED IS FOR A QUICKLY DISBURSIBLE PROGRAMME OF COMMODITY ASSISTANCE.

I SHALL APPRECIATE IT GREATLY IF YOU WOULD, IN THE LIGHT OF THE REASONS STATED ABOVE, DIRECT THE OFFICIALS OF YOUR GOVERNMENT TO EXPLORE AND CONSIDER FAVORABLY THE PROSPECTS FORMAKING A SUBSTANTIALLY INCREASED PLEDGE OF ASSISTANCE AT THE FORTHCOMING MEETING OF THE SRI LANKA AID GROUP.

I WISH TO THANK YOU, THE GOVERNMENT OF THE PEOPLE OF THE UNITED STATES OF AMERICA FOR THE GENEROUS ASSISTANCE EXTENDED TO SRI LANKA IN THE PAST.

YOURS SINCERELY,
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(J.R. JAYEWARDENE) END TEXT. VANCE

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